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Good morning Mr. Chairman, Ranking Member Holden and Members of the Subcommittee. It is a great pleasure to be here with you today to discuss the issue of agriculturally based alternative fuels and biodiesel production in particular from a truly grassroots perspective.

## Introduction

My name is Don Coccia, and I am the founder and CEO of AGRA Biofuels, LLC (AGRA, America's Greatest Renewable Alternatives). I appear here today not long after accomplishing the surprisingly challenging but gratifying task of building Pennsylvania's first commercial biodiesel production facility. Our production facility, named in memory of my father Joseph A. Coccia, and his now decades old dream of a national foundation dedicated to "Peace Through Energy" is located ten miles south of here in Middletown, Pennsylvania. The facility has an annual production capacity of nearly 3 million gallons of biodiesel and was dedicated in January of this year with the distinct honor of Representative Holden's presence at that event. On behalf AGRA Biofuels and the entire biofuels industry I would like to thank Representative Holden for his leadership in first recognizing and now supporting the opportunities presented for both the nation as a whole and the agricultural community specifically by the biofuels industry. Today, my testimony is meant to support his leadership and to share ideas and concerns earned through my recent real-world experiences to improve, promote and advance the cause of alternative energy and our nation's energy independence through the advancement of the biofuel industry.

## The Importance and Commitment to America's Energy Supply

There are two primary reasons that explain my dedication to participating in solving America's energy needs. The first was strictly a family financial decision and an experience I'm sure many Americans have or will have to unfortunately relive. I opened my heating bill in 1999, realized that heating oil had more than doubled in less than a year, and, I dedicated myself to finding something else. That quest soon led me to a 1-paragraph article describing the USDA Beltsville Agricultural Center and their use of vegetable oil based heating oil. My direct contact with them introduced me to biodiesel and began the journey, which led ultimately to the formation of AGRA Biofuels. It's fair to say, the USDA is directly responsible for introducing me to the opportunity of biodiesel.

While investigating the opportunities biodiesel presented, I also learned of the profound importance energy assumes in the United States. Energy, its availability, affordability and consumption are vital if not the foundation to the American standard of living and

economic well-being. In fact, a host of reasons now convince me that energy related issues are perhaps the most important issues of my generation:

-First, the stability and strength of the U.S. dollar is closely tied to the oil market because of the fact that all oil contracts worldwide are denominated in U.S. dollars and because U.S. oil imports have a significant effect upon our balance of trade.
-Second, while we are now importing nearly two-thirds of our oil requirements, those providing the oil are most often located in the most politically unstable and openly anti-American locales. To an increasingly larger extent we are effectively leaving the control of a large portion of our economy to foreign unfriendly control by relying upon foreign sources of energy.
-Third, energy and its related activities underlie directly and disproportionately the majority of our environmental and pollution concerns.
-Fourth, energy is the world's largest market and new energy technologies being developed today will most likely prove the largest economic and job creation opportunities for the future.
-And finally, there is a direct link between a country's standard of living and the availability and use of energy. As standards of living grow throughout the world and especially in large, extremely fast growing economies like China and India, the competition for limited crude oil reserves will grow with a resulting upward pressure on prices. It's no coincidence that President Hu Jintao of China left the United States last week and proceeded directly to Saudi Arabia and oil producing countries in Africa to sign oil development and supply agreements. We increasingly will be faced with stiff competition from other interests and nations for the available sources of foreign-based energy.

Based on these events and observations, and after years of industry related education, investigation and research I dedicated myself to participating in solving America's energy needs. America now, spurred on by currently historically high energy costs is likewise committing itself to the challenge of developing new domestic energy supplies and breaking, as President Bush has said, our "addiction to oil" which increasingly is being supplied from foreign sources.

**Alternative Energy and Biodiesel**

Alternative energy provides the most promising opportunities for meeting or replacing a large percentage of our energy needs. However, it's unlikely that any one magic bullet exists today that will completely solve our energy supply concerns. The energy market itself is more akin to a mosaic with many components. Unfortunately, that mosaic currently is dominated by one piece, crude oil. The challenge now is to diversify that mosaic with new sources of alternative energy and to grow other currently available sources with the goal to significantly reducing that crude oil component and creating a balanced energy mosaic picture. The rationale of waiting until a "winning horse" can emerge to replace crude oil should instead be replaced by the idea that many technologies, simultaneously developed, can collectively diminish the primary role that crude oil now plays.

In our case, we investigated the most currently promising alternative energy technologies to determine which held the most promise for IMMEDIATE application and effect. We were keenly aware that alternative energy had developed a reputation for promising future benefits with little practical application now. After much research and investigation we concluded that biodiesel presented the best opportunity now and went about educating ourselves on all aspects of the technology and an industry that in the United States had just begun.

Our education into Biodiesel revealed a promising technology that could be easily and quickly employed. In fact, the technology of making biodiesel was first discovered in 1865 and is theoretically very simple. To make biodiesel you simply remove soap (glycerin) from vegetable oil or animal fats to make it thinner. That's it. An alcohol like methanol or ethanol replaces the soap and the resulting product, biodiesel, can be used either alone or in combination with petrol diesel anywhere petrol diesel is currently used. The bottom line is, petrol diesel has the consistency of water, diesel engines have over the last 100 years been optimized to run on fuel of this consistency, biodiesel processing converts oils and fats into that same consistency so they can be used just like petrol diesel. Additionally, our research revealed that biodiesel's other benefits include:

- No additional infrastructure or equipment investment is required to use it, just "drop-in" or "fill and go",
- It can be produced domestically utilizing American farm inputs,
- Biodiesel use provides significant environmental benefits,
- Diesel technology is as much as 20-40% more efficient than similarly sized gasoline engines.

The only concern with biodiesel at that time was its pricing. This final hurdle was addressed through two programs that the federal government then provided and which we still strongly support today. The combination of the CCC bioenergy program to encourage additional production capacity and the blenders credit for the first time made biodiesel economically feasible and price competitive with petrol diesel.

**AGRA Biofuels and the Production of Biodiesel**

In June of 2005 we organized AGRA Biofuels with the goal to construct a biodiesel processing facility in Central Pennsylvania. At the outset, we purposely wanted to site and construct a processing facility quickly so that we could demonstrate to consumers, investors, and, local, state and federal leaders like you that biodiesel production can be accomplished quickly and contribute immediately to our crude oil supply concerns. Our message and goal became our marketing slogan "Right Here, Right Now, Right for America". Little did we know what we were in for.

We naively believed that a facility in an industry so desperately needed by the nation would be relatively readily embraced and encouraged. We were wrong. The fact that the industry was so new made every activity one of first impression to whomever we were dealing with and most often a challenge for them to neatly place in an already

established “protocol” or standard operating procedure. Every activity from leasing a facility, to insuring it, to obtaining financing, to permitting at every government level proved an unbelievablely difficult, frustrating and expensive task. A few examples may explain our difficulties and why a six-month project continues nearly a year later today with over a 500% cost overrun and new regulatory surprises everyday:

-We initially envisioned utilizing used restaurant oils as a potential feedstock for our facility. Unfortunately, Pennsylvania is the only state in the union that regulates the processing of used restaurant oil or “yellow grease” for processing into biodiesel. Although a permitting process existed initially to utilize yellow-grease, the process was uncertain as to outcome, extremely expensive and likely to take years to complete. After much time, effort and expense, however, I am proud to say, that working closely with the administration of Governor Ed Rendell we have been able to at least provide an interim solution. In concert with the staff of Pennsylvania’s Department of Environmental Protection (DEP), headed by Secretary Kathleen McGinty and the Department of Agriculture headed by Secretary Dennis Wolff, we provided extensive comments on a new general permit that now allows the commercial production of biodiesel using yellow grease under a DEP initiated general permit. We are hopeful that under that general permit we will be permitted to process yellow grease soon.

-In an effort to insure our facility we ran into serious roadblocks due primarily to a misunderstanding of the facility and the industry. Insurers classified biodiesel not as processed vegetable oil but rather as a hydrocarbon based fuel, especially since the name included the word diesel as in bio-DIESEL. In fact, insurers classified us most often as a crude oil refinery, even though the raw materials used and the environmental and processing risks are completely different and much less apparent. Our facility contains no crude oil and does not employ high temperatures or pressure in our processing. In the end, I was forced to conduct nearly daily conference calls for months with dozens of insurance companies and become an insurance expert before we were lucky enough to identify a broker and an insurance company that would work with us.

-Code enforcement officers and those responsible for applying and enforcing regulations are most often not familiar with the biodiesel industry nor have a procedure to process and accept a facility involved in a new industry. The exercise of interpreting regulations and obtaining permits then becomes an expensive and drawn-out procedure and I’m afraid an opportunity to open a never ending process where no one is willing to make final decisions or establish precedents. In such a vacuum, regulators regularly resort to the most restrictive interpretations to avoid repercussions thereby endangering the success of any project.

-Even though we now have millions of dollars of equipment in place in our facility, traditional lenders still have no incentive or inclination to put forth the effort to determine a valuation for our equipment or inventory. In the end, financing is still largely an exercise in obtaining private funding.

All of these roadblocks can be attributed to the growing pains of a rapidly expanding industry but to be effective quickly in establishing a vibrant alternative energy industry I believe that all of these issues and dozens more like them will most effectively be addressed by a central organization. In my mind the terms that will describe success in building the alternative energy industry is responsiveness and predictability when undertaking an alternative fuels project. This is especially true in the case of potential small producers that may not be able to absorb the cost and time commitments of developing alternative energy projects. New fuels, new technologies and new ideas and improvements will continuously be introduced and I believe that to be successful, we must build the infrastructure that embraces them, evaluates them, assists in developing them and gets them in production and to the consumer in the least amount of time and with the least amount obstacles.

**The Biodiesel Industry Beyond Production**

Beyond the actual making or production of biodiesel which AGRA Biofuels now participates, the industry also consists of two other segments, feedstock supply which provides the raw materials for our facility and post production blending, distribution and marketing. The industry can be seen as a continuous energy supply system that begins with feedstock, which in turn supplies production, which in turn supplies the distribution to consumers. Therefore to build a successful biodiesel industry each of the three successive steps to biodiesel utilization must be developed. The feedstock must be made available, the production facilities must exist and the distribution infrastructure must be available to deliver the fuel wanted by consumers, consumer demand which in turn is developed through effective consumer awareness, marketing programs and state-of-the-art appliances, engines and vehicles.

**Building the Future**

The future of America's energy independence I believe will be rooted today in the activities done now to create a foundation for implementing alternative energy technologies. We must continue the programs that have proven so successful to this point in really just a few years to creating exponential growth within the biofuel industry. These include the funding of the CCC bioenergy program and the small producers tax credit and blenders credit programs.

In addition to these existing programs, I also believe that we must support each of the industry's three segments to keep biodiesel in particular competitive and importantly domestically produced. Traditional feedstock like soybean oil, for example, which serves as the vast majority today of the biodiesel raw material is expected to soon experience significant competition from foreign oils that are vastly more prolific and therefore less expensive. The nation must invest in ensuring that domestically grown feedstocks can compete effectively against this challenge and that new technology can be deployed quickly so as to encourage increasingly larger amounts of production to expand feedstock supplies. This not only will include research into developing more productive oil producing traditional crops, but also in encouraging farmers to grow the crops. In the end, the nation will also have to invest in developing new and novel forms of feedstock of which aquaculture based feedstocks such a micro algae appear to offer nearly limitless

potential. Additionally, although the feedstock may be grown, we must also ensure that the infrastructure exists to process the crops into oil and into a form that can be used to produce the biofuel.

Therefore, there is a definite need for Congress in the next Farm Bill to expand incentives for oil crop production and processing. For in addition to the obvious energy and environmental benefits provided by the production and use of biodiesel, there are tremendous gains that can be made for the Agriculture sector of our economy. Using soybeans and other feedstock and oil crops for biodiesel production does much more than use surplus agricultural commodities; it adds layer upon layer of economic value. Various economic studies have shown that increased use of fats and oils for biodiesel production increases the value that farmers receive for their crops, at the same time making protein meal cheaper for domestic livestock producers and more competitive in the international protein markets for food and fuel. This could lead to actually increasing agricultural processing here in the United States, while at the same time making our farmers more profitable in the global food markets.

From a production prospective, I believe that the infrastructure must be developed to make the industry highly responsive. That is, organizations and stakeholder partnerships must be created and funded to marshal the resources that enable everyone willing to participate to have access to the knowledge and procedures to easily, efficiently and quickly institute any alternative energy initiative. In effect, we must create a reproducible template that family farms, cooperative or private entities can use to implement and sustain alternative energy projects. The template must provide access to the finances, knowledge, regulatory procedures and technical support necessary to make the industry viable, fast growing, responsive and competitive.

Finally, from a postproduction perspective, educational awareness, technical support and appliance development programs must be developed to ensure the adequate supply and increasing demand for biofuels. For example, less expensive equipment must be developed and additives researched that permit cold weather utilization of biodiesel with and without blending with petrol diesel. Additionally, I firmly believe that with the proper research and development funding, the technology exists and can be easily developed to significantly expand the use of biodiesel in traditional HVAC, and stand alone energy generation within the home. Imagine the positive effect of a home in the near future burning clean biodiesel that is completely off-grid and generates all of its energy needs through biodiesel and the utilization of highly efficient clean-burn diesel technology.

**Conclusion**

Therefore, as a result of our experience, I am here today to ask for continued support of the biodiesel production industry as it relates to agriculture. As you consider the 2007 Farm Bill, please consider the federal policy measures that have been successful in the progress made developing this industry. They include extension of the biodiesel blender's and small producers credits, extension of the bioenergy program for biodiesel and extension and expansion of the biodiesel fuel education program.

Beyond that, I would urge Congress to explore possible initiatives to increase soybean and other oil crop and feedstock production, deployment grants for new feedstocks, guaranteed loans for facility construction or expansion and greater incentives for end-use research development and deployment. Additionally, I would argue that all of these goals could be accomplished through a newly created organization that brings together government, research and industry participates in a partnership format and committed to the goal of technical development and technical support to each segment of the biodiesel industry.

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Mr. Chairman, I appreciate the opportunity to appear before you here today to discuss this important issue. We welcome the opportunity to continue working with Rep. Holden and members of this committee as you move forward, and I'll be happy to answer any questions you might have. Energy independence is not beyond our grasp. In fact, it is with a certain irony that we sit here this morning in the same state that gave birth to the oil industry, discussing the potential of a re-birth of oil. Right here. Right now, Right for America.

Thank you very much.